

STATE OF MAINE  
PUBLIC UTILITIES COMMISSION

Docket No. 2001-108

March 20, 2001

NORTHERN UTILITIES, INC.,  
Petition for Approval to Participate  
In Funds Pooling Agreement

ORDER

WELCH, Chairman; NUGENT and DIAMOND, Commissioners

---

**I. SUMMARY**

On February 13, 2001, Northern Utilities, Inc. (NU or the Company), in accordance with the requirements of 35-A M.R.S.A. §707, applied to the Commission to amend the terms of a previously approved “funds pooling agreement” to allow the participation of an additional affiliate, NiSource Capital Markets, Inc. (Capital Markets). The funds pooling agreement is a mechanism allowing NU and specified affiliates to consolidate their short-term borrowing efforts in order to reduce interest and administrative expenses. Having examined the proposed agreement, we find that it is not adverse to the public interest, and therefore approve it.

**II. DISCUSSION & DECISION**

Under the existing agreement, NU and an affiliate, Granite State Gas Transmission, Inc. (Granite State), entered into an arrangement with their parent, Bay State Gas Company (Bay State), in which the short-term cash surpluses of each of the three entities would be available to offset the cash needs of the remaining entities. The Commission originally approved this agreement in Docket No. 96-377, *Northern Utilities, Inc., Petition for Approval to Participate in Funds Pooling Agreement* on September 16, 1996. Due to commitments made by NU’s parent company NiSource, Inc. (NiSource), to the Securities & Exchange Commission and to certain bond rating agencies<sup>1</sup>, future short-term borrowing arrangements will be consolidated at the parent company level. This means that NU, Bay State and Granite State would in the future make short-term borrowings from their affiliate, NiSource Capital Markets, Inc., a wholly owned subsidiary of NiSource, Inc.

NU asserts that it will not be adversely affected by this agreement as Capital Markets, due to its larger size, can access the commercial paper market more efficiently than could a company the size of NU. Based on its previous 12 months borrowing

---

<sup>1</sup> These commitments are related to the recent merger of NU’s parent company, NiSource, Inc., and Columbia Energy Group.

history, NU estimates that this arrangement would have saved it roughly \$57,000 in interest expenses compared to what it would have expected to pay on a stand-alone basis. At the present time the commercial paper ratings of Capital Markets and Bay State are comparable<sup>2</sup>, meaning that substituting Capital Markets for Bay State in the pooling agreement will not result in higher short-term borrowing costs for NU. We believe that this factor, plus the projected level of savings versus a stand-alone credit facility for NU, weighs in favor of approval of the Company's request.

Nevertheless, we note a remaining area of concern with this agreement. In our order approving the NiSource/Columbia merger in Docket No. 2000-322, *Northern Utilities, Inc., Request for Approval of Reorganization: Merger and Related Transaction* we specified that we would act to ensure that ratepayers would not be harmed by higher rates following this merger. Order at 9.

The NiSource/Columbia merger could harm ratepayers specifically through the funds pooling agreement. Prior to the NiSource/Columbia merger, Bay State had higher bond and commercial paper ratings than did NiSource (and thus Capital Markets). Following the merger, Bay States' ratings were lowered to match those of NiSource, apparently because NiSource significantly leveraged its balance sheet to fund the Columbia merger. This means that, at least in the near term, NU's short-term interest expenses will likely be higher than they would have been but for the merger, which would thus be adverse to the public interest and preclude us from approving the amended agreement. However, mitigating circumstances allow us to avoid making such a finding.

First, NU has not had a rate case in many years, and therefore the cost of short-term debt associated with the funds pooling agreement is not actually in the Company's rates today and will not go into rates until after a rate case. Second, as stated in our order approving the NiSource/Columbia merger, the Company will have the burden of proof in showing that higher borrowing rates resulting from credit rating downgrades were not caused by the merger if it seeks to recover these higher costs in the future. See Docket No. 2000-322, Order at 9. Finally, an approval of the current request is subject to the usual condition that it does not in any way limit the ability of the Commission to set the rates or charges of the Company in a future rate proceeding. Therefore, we conclude that the proposed arrangement is not adverse to the public interest and approve NU's request.

---

<sup>2</sup> Bay State's are A-2 from S&P and P-1 from Moody's while NiSource's are A-2 and P-2 respectively.

Accordingly, we

**O R D E R**

1. That the amendment adding the affiliate NiSource Capital Markets, Inc., to the funds pooling agreement previously approved on September 16, 1996 in Docket No. 96-377 involving Northern Utilities, Bay State Gas and Granite State is approved.
2. That Northern Utilities file an executed copy of the amended funds pooling agreement within 30 days of closing of the transaction.
3. That a copy of the Order be sent to Northern Utilities and this docket be closed.

Dated at Augusta, Maine, this 20<sup>th</sup> day of March, 2001.

**BY ORDER OF THE COMMISSION**

---

Dennis L. Keschl  
Administrative Director

**COMMISSIONERS VOTING FOR:**

Welch  
Nugent  
Diamond

## NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within 30 days of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Civil Procedure, Rule 73, et seq.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.